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National Tea Co.



1950

annual report
to stockholders

National Food Stores . . .

**progressing with America's
growing cities—
building with America's
new communities**

Hundreds of National Food Stores are contributing their share towards maintaining the popularity of established shopping centers in metropolitan cities and are helping to create new community shopping centers in the suburban towns and hamlets throughout America's Midwest—A program of expansion and modernization that has been well received, patronized, and appreciated by our many friends and customers as evidenced by our continued record increases in sales.



officers and directors of National Tea Co.

directors

JOHN F. CUNEO*

President of The Cuneo Press, Inc.

JOHN V. FARWELL III*

President of Sanitary Scale Co.

RAYMOND P. FISCHER

Vice President of The Cuneo Press, Inc.

ARTHUR J. HANSEN

Vice President and Branch Manager

CHARLES S. KELLY

Attorney

HARLEY V. McNAMARA*

President

ROBERT V. RASMUSSEN

President, Elmwood Trust

WILLIAM E. RUSSELL

Secretary-Treasurer

ROBERT E. STRAUS

*Executive Vice President of The American
National Bank and Trust Company of Chicago*

*Member of Executive Committee

Transfer Agents

The First National Bank
38 S. Dearborn Street
Chicago, Illinois

The Chase National Bank
11 Broad Street
New York, N. Y.

Registrars

Continental Illinois National Bank and Trust Co.
231 S. LaSalle Street
Chicago, Illinois

The New York Trust Company
100 Broadway
New York, N. Y.

officers

HARLEY V. McNAMARA, *President*

ARTHUR J. HANSEN, *Vice President*

NORBERT L. CHAPLICKI, *Vice President*

FRANK J. GRUMAN, *Vice President*

WILLIAM E. RUSSELL, *Secretary-Treasurer*

CLARENCE E. BEARD, *Assistant Treasurer*

CHARLES WOODING, *Assistant Secretary*



H. V. McNamara

management report for 1950

TO OUR SHAREHOLDERS

The results of operation of National Tea Co. and its subsidiaries for the year 1950, showing increased sales and profits for the sixth consecutive year, are presented herewith.

SALES

Sales for the year amounted to \$315,218,947 as compared with \$274,332,677 for the year 1949, an increase of \$40,886,270 or 14.90%.

PROFITS

Earnings for the year amounted to \$5,214,563 equivalent after preferred dividends to \$3.31 per share on 1,541,160 shares of presently outstanding common. This compares with a profit of \$4,571,935 in 1949 or \$2.89 per share adjusted for the two for one stock split. The results for the current year are after providing an amount of \$500,000 to cover estimated excess profits taxes retroactive to July 1, 1950.

DIVIDENDS

During the year 1950 dividends of \$3.20 per share were paid to common shareholders on the shares outstanding before the split up, or at the rate of \$1.60 per share after the split. In addition to common dividends, preferred dividends in the amount of \$106,836 were paid or declared.

INVENTORIES

Inventories of merchandise and supplies have increased from \$17,681,887 on December 31, 1949 to \$23,397,133 reflecting the higher needs of the business and increased prices. Our inventory turnover continues to be very satisfactory.

Results at a glance

Results of operations for the Calendar Years

	1946	1947	1948	1949	1950
Sales.....	\$157,641,672	\$217,915,297	\$270,176,795	\$274,332,677	\$315,218,947
Net profit before federal taxes	4,761,473	5,772,154	6,483,006	7,419,935	9,764,563
Federal Taxes—Normal	1,830,000	2,175,000	2,433,000	2,848,000	4,050,000
Excess profits.....					500,000
Net profit after federal taxes.	2,931,473	3,597,154	4,050,006	4,571,935	5,214,563
Earned					
Per Share Common*.....	2.25	2.72	2.54	2.89	3.31
Percent of Sales.....	1.86	1.65	1.50	1.66	1.65
Dividends paid per share on Common*.....	.425	.625	.9375	1.25	1.60
Common Shareholders Investment per Share*.....	11.51	13.48	14.50	16.09	18.40
Ratio of Current Assets to Current Liabilities.....	1.97	2.18	2.40	2.48	2.02
Number of Common Shares Outstanding.....	631,400	641,150	769,380	769,380	1,541,160

*Common stock split two for one on December 20, 1950
Earnings for all years shown on equivalent basis

	1946	1947	1948	1949	1950	STORES
Stores with meat markets.....	491	556	569	596	591	
Conventional grocery stores.....	202	146	90	59	43	
Total stores on December 31.....	693	702	659	655	634	

During the year the Company sold six store properties at a profit of \$20,801. As of December 31, 1950, we continue to own 13 store properties, 10 of which are occupied by Company stores and three are leased to others.

REAL ESTATE

In December, 1948, the Company purchased from the War Assets Administration a warehouse property consisting of 801,000 square feet and 50 acres of land for warehouse purposes in the Chicago area. At the time of purchase this property was under lease, expiring December 14, 1950, to the Western Electric Co. We obtained possession of the property on December 15, 1950, and immediately started remodeling operations; however, it now appears that this plant may be reactivated by the War Department for defense purposes.

On December 15, 1950 the Company entered into an agreement which has since been consummated, with Gamble-Skogmo, Inc., for the purchase by this Company on January 2, 1951, of the fixtures and inventories of merchandise in 21 super markets and luncheonettes, operated by Gamble-Skogmo, Inc., in Minnesota, North Dakota, South Dakota and Wisconsin. These modern food stores will be operated under the name of National Food Stores and will prove to be a substantial addition to our Minneapolis branch in both sales and profits.

FINANCIAL

Substantial expenditures for delivery, manufacturing and store equipment have been made during the year. We have completed 54 new stores, 21 being relocations and have leased and plan to open 47 new stores, of which 20 will be relocations.

The Company purchased at a cost of \$100,000 a one-quarter interest in Everywoman's Magazine, Inc., publisher of Everywoman's Magazine which is sold through chain grocery stores. The Company has exclusive rights for its distribution in the territories in which its stores are located.

Following is a brief summary of the changes in the working capital position of the Company during the year 1950:

Source of Funds:

Net Profit.....	\$5,214,563	
Additions to reserve for self-insurance; decrease in prepaid expense, etc.	119,880	
Sale of treasury common shares.....	42,000	\$5,376,443

Disposition:

Excess of capital expenditures over provision for depreciation and amortization and sales of property.....	\$2,155,696	
Investment in Everywoman's Magazine.....	100,000	
Serial notes paid.....	100,000	
Preferred shares retired.....	445,000	
Preferred shares purchased for treasury.....	81,297	
Dividends:		
Preferred shares.....	106,836	
Common shares.....	2,001,348	4,990,177

Increase in Net Current Assets.....\$ 386,266

Pending in United States District Court for the Northern District of Illinois, Eastern Division, is a complaint filed on July 21, 1949, by the Dean Milk Company against a number of defendants, including the Company, the Borden Company, Bowman Dairy Company, Western United Dairy Company, Capital Dairy Company, Hunding Dairy Company, Meadowmoor Dairy Company, American Processing and Sales Company, Inc., and John F. Cuneo, alleging that the defendants have violated the anti-trust laws in connection with the distribution of milk in the Chicago area and that the plaintiff is entitled to treble damages which are estimated in excess of \$15,000,000. The Company denies the allegations of the complainant and is contesting the case. It has been set for trial on June 11, 1951.

LITIGATION

At a special meeting of the shareholders of the Company held on December 18, 1950, the recommendation of the Directors that the Articles of Incorporation of the Company be amended to effect a split up in the number of issued Common Shares on the basis of two for one and the change in par value from \$10 to \$5 per share was approved by a vote of 703,546 shares or 86 per cent of the shares outstanding and entitled to vote.

SHAREHOLDERS

Wages paid to employees during the year amounted to \$32,317,123 as compared with \$29,590,941 in 1949, an increase of \$2,726,182 or 9.2 per cent.

EMPLOYEE
RELATIONS

Supplementing its group Life, Health and Accident insurance plan which has been in effect for many years, the Company has just put into effect a plan for Hospital care, a substantial part of the cost of both plans being paid by the Company.

Employee relations are on a friendly basis and the spirit of cooperation throughout the Company is greatly appreciated.

Chicago, Illinois
February 28, 1951

H. V. Mc Namara
President

National Tea Co. and Subsidiaries

statement of consolidated income

for the years ended December 31, 1950 and 1949

	1950	1949
SALES AND OTHER INCOME:		
Sales.....	\$315,218,947	\$274,332,677
Profit on disposal of fixed assets, etc.....	21,682	1,122
Total sales and other income.....	\$315,240,629	\$274,333,799
COSTS AND EXPENSES:		
Materials and services purchased from others.....	\$262,615,407	\$228,197,942
Wages and salaries.....	32,317,123	29,590,941
Rentals paid for leased properties.....	3,153,947	2,833,064
Provision for depreciation and amortization.....	1,896,718	1,381,678
Interest on indebtedness.....	64,426	36,065
Social security, State, local and miscellaneous taxes...	5,428,445	4,874,174
Provision for Federal income taxes (including in 1950 \$500,000 for excess profits tax).....	4,550,000	2,848,000
Total costs and expenses.....	\$310,026,066	\$269,761,864
NET INCOME FOR THE YEAR.....	\$ 5,214,563	\$ 4,571,935

statement of consolidated earned surplus

for the years ended December 31, 1950 and 1949

	1950	1949
BALANCE AT BEGINNING OF YEAR.....	\$ 14,070,739	\$ 11,624,244
ADDITIONS:		
Net income.....	5,214,563	4,571,935
Adjustment of leasehold improvements, etc. (\$691,997) less applicable Federal income taxes.....	449,928	—
	\$ 19,735,230	\$ 16,196,179
DIVIDENDS:		
4 $\frac{1}{4}$ % preferred shares.....	\$ 45,838	\$ 56,639
3.8% preferred shares.....	60,998	68,413
Common shares (equivalent to \$1.30 per share on \$5 par value).....	2,001,348	2,000,388
	\$ 2,108,184	\$ 2,125,440
BALANCE AT END OF YEAR.....	\$ 17,627,046	\$ 14,070,739

National Tea Co.

CONSOLIDATED BALANCE SHEET

Assets		1950	1949
CURRENT ASSETS:			
Cash.....		\$ 8,570,324	\$ 8,731,285
Accounts receivable, less reserves of \$21,796 and \$20,848.....		831,802	672,716
Inventories, at lower of cost or market—			
Merchandise.....		22,482,254	17,163,772
Supplies.....		914,879	518,115
Total current assets.....		\$32,799,259	\$27,085,888
PREPAID RENTS, INSURANCE, ETC.....		\$ 341,873	\$ 392,916
INVESTMENT IN EVERYWOMEN'S MAGAZINE, at cost...		\$ 100,000	\$ —
PLANT AND EQUIPMENT, at cost:			
	Gross	Reserves	
Land.....	\$ 844,179	\$ —	\$ 844,179
Buildings.....	2,816,277	1,497,002	1,319,275
Fixtures and equipment.....	18,773,883	7,454,819	11,319,064
	<u>\$22,434,339</u>	<u>\$8,951,821</u>	<u>\$13,482,518</u>
Chicago warehouse, at cost, less reserves of \$150,209 and \$41,052 (acquired from U. S. Government in 1948 for occupancy in December 1950; presently only partially occupied since plant may be reactivated for defense purposes).....		3,925,648	3,904,305
Leaseholds and leasehold improvements, less amortization.....		1,635,237	865,456
		\$19,043,403	\$16,437,779
		<u>\$52,284,535</u>	<u>\$43,916,583</u>

See Notes to

and Subsidiaries

DECEMBER 31, 1950 AND 1949

Liabilities

	1950	1949
CURRENT LIABILITIES:		
Accounts payable	\$ 9,425,079	\$ 5,558,928
Accrued liabilities	2,118,779	2,456,092
Federal income and excess profits taxes	4,688,207	2,889,940
Total current liabilities	\$16,232,065	\$10,904,960
LONG-TERM DEBT:		
3¼% promissory note due serially 1952 to 1964	\$ 4,000,000	\$ 4,000,000
Serial notes, due 1952 to 1960; interest rates 2½% to 3%	1,000,000	1,100,000
	\$ 5,000,000	\$ 5,100,000
RESERVE FOR SELF-INSURANCE	\$ 304,121	\$ 235,284
CAPITAL STOCK AND SURPLUS:		
Preferred shares, cumulative, par value \$50 (sinking fund deposit of \$554,508 required on April 1, 1951)—		
4¼% series, authorized and issued 19,800 and 24,200 shares ..	\$ 990,000	\$ 1,210,000
3.8% series, authorized and issued 29,475 and 33,975 shares ..	1,473,750	1,698,750
Common shares, par value \$5, authorized 2,000,000 shares, issued 1,576,460 shares (Note 3)	7,882,300	7,882,300
Paid-in surplus (increase represents excess of option price over carrying value of 2,400 treasury shares sold during year)	3,042,097	3,012,697
Earned surplus (Note 1)	17,627,046	14,070,739
	\$31,015,193	\$27,874,486
Less—Approximate cost of treasury shares (Note 4)—		
35,300 common and 1,600 4¼% preferred shares in 1950; and		
18,850 of \$10 par value common shares in 1949	266,844	198,147
	\$30,748,349	\$27,676,339
	<u>\$52,284,535</u>	<u>\$43,916,583</u>

auditor's certificate

Arthur Andersen & Co.
120 South La Salle Street, Chicago 3

TO THE BOARD OF DIRECTORS,
NATIONAL TEA CO.:

We have examined the consolidated balance sheet of NATIONAL TEA CO. (an Illinois corporation) AND SUBSIDIARIES as of December 31, 1950, and the related statements of consolidated income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We had previously made a similar examination for the year ended December 31, 1949.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and earned surplus present fairly the financial position of National Tea Co. and subsidiaries as of December 31, 1950, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Chicago, Illinois,
February 14, 1951.

notes to financial statements

December 31, 1950 and 1949

(1) At December 31, 1950, earned surplus of \$13,232,370 is restricted as to the payment of dividends on common shares; net current assets remaining after giving effect to the payment of dividends on common shares must equal at least \$10,000,000.

(2) A treble damage suit under the antitrust laws, Civil Action No. 49 C 1159, was filed in July, 1949, in the Federal Court at Chicago by Dean Milk Company against a number of defendants, including National Tea Co. and several corporations engaged in the distribution of milk in the Chicago area, claiming damages in a substantial amount on the basis of certain alleged acts of the defendants. The suit is being contested by all defendants and has been set for trial on June 11, 1951.

(3) During 1950, the Company increased its authorized common shares from 800,000 to 2,000,000 shares, reduced the par value of the shares from \$10 to \$5 and effected a two for one stock split-up of issued shares.

(4) At December 31, 1950, 11,600 common shares in treasury were reserved under option agreements for sale to officers and employees at \$17.50 per share. These options are exercisable cumulatively to the maximum of 400 shares on or before July 11, 1951, plus 2,800 additional shares for each succeeding year through July 11, 1955.

National's Ideals . . .

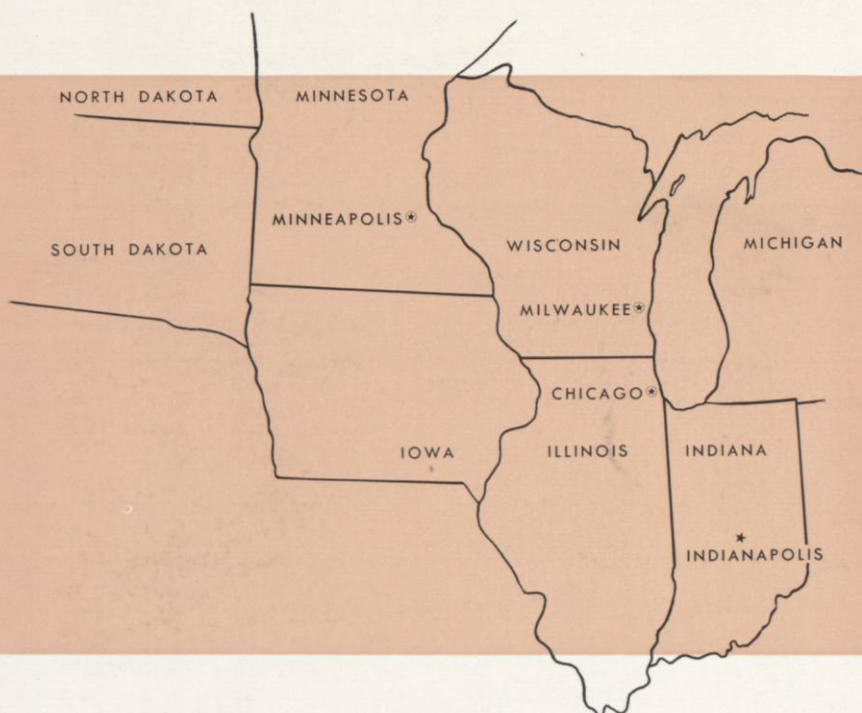


we hereby pledge:

- to build stores that will be a credit to the community they serve.
- to foster a fine relationship between our stores and their customers, co-workers, and suppliers.
- to maintain quality and always sell merchandise at a fair price.
- to stress honesty and sincerity in our advertising and selling.
- to consider no sale completed until the items purchased have rendered satisfaction.
- to measure our success only by the service which we are able to render our customers.

National Food Stores . . .

serving the golden midwest



National Tea Co.

CHICAGO • INDIANAPOLIS • MILWAUKEE • MINNEAPOLIS

ILLINOIS

325 Stores

294 Markets

MINNESOTA

113 Stores

113 Markets

WISCONSIN

78 Stores

75 Markets

INDIANA

66 Stores

64 Markets

IOWA

26 Stores

20 Markets

NORTH DAKOTA

10 Stores

10 Markets

SOUTH DAKOTA

8 Stores

8 Markets

MICHIGAN

8 Stores

7 Markets

⊙ Branch Warehouses
with Bakeries

★ Branch Warehouses